

Quarterly Performance Report (September – December 2003)

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Submitted by:



CHEMONICS INTERNATIONAL INC.

In association with:

The Services Group Inc., PA Consulting Group, Dexis Consulting Group, The Asia Foundation,
Crimson Capital, Making Cents

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Project: Mongolia Economic Policy Reform and Competitiveness Project (EPRC)
Report title: **Quarterly Performance Report (September – December 2003)**
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Submitted by: EPRC Project/Chemonics International Inc., Tavan Bogd Plaza, Second Floor,
Eronhii Said Amar Street. Sukhbaatar District, Ulaanbaatar, Mongolia
Telephone and fax: (976) 11 32 1375 Fax: (976) 11 32 7825
Contact: Fernando Bertoli, Chief of Party
E-mail address: fbertoli@eprc-chemonics.biz

ABBREVIATIONS and ACRONYMS

ADB	Asian Development Bank
COP	Chief of Party
DCOP	Deputy Chief of Party
EPRC	Economic Policy Reform and Competitiveness Project
EPSP	Economic Policy Support Project
FEZ	Free Economic Zone
FDI	Foreign direct investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GOM	Government of Mongolia
IMF	International Monetary Fund
IR	Intermediate Result
IT	Information technology
LOE	Level of effort
LOP	Life of Project
LTEX	Long-Term Expatriate/Third Country National Employee
LTLP	Long-Term Local Professional
M&E	Monitoring and evaluation
P/Ds	Person/days
SO	Strategic objective
SOW	Scope of work
STTA	Short-term technical assistance
TA	Technical assistance
TCI	The Competitiveness Initiative
TORs	Terms of reference
TSG	The Services Group, Inc.
UNDP	United Nations Development Programme
WB	World Bank
WTO	World Trade Organization

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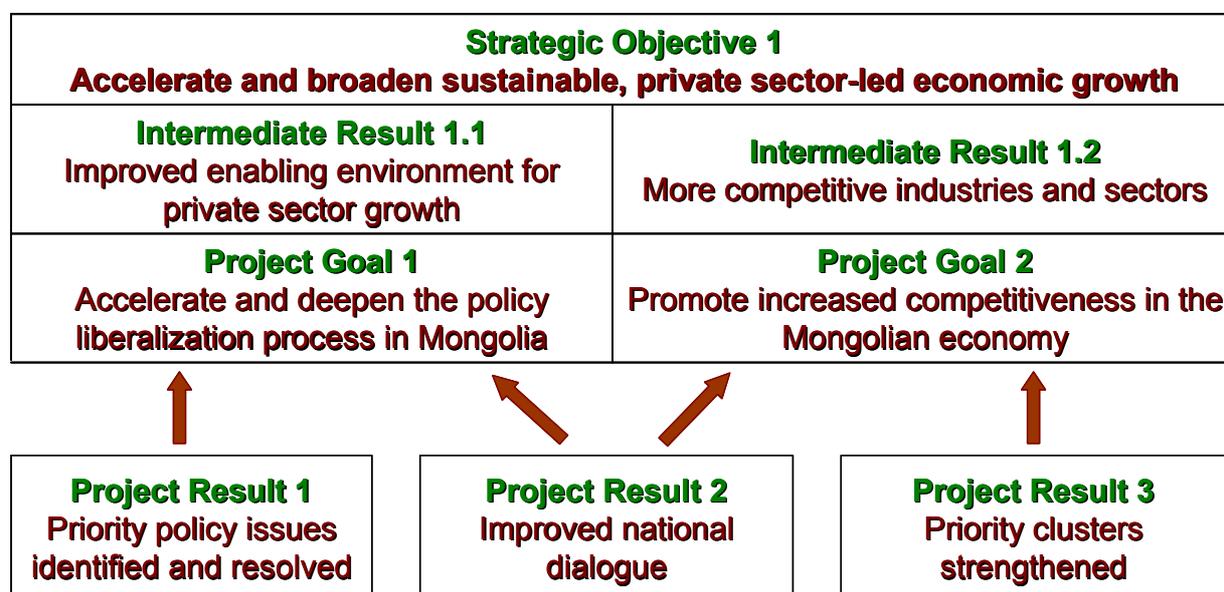
EXECUTIVE SUMMARY

Pursuant to contract provision F2 (c), this document contains the Quarterly Performance Report (QPR) for the *Economic Policy Reform and Competitiveness Project* (EPRC) activity. The QPR covers the period from 19 September 2003, the effective date of contract inception, through 31 December 2003.

The EPRC contract is a core activity of USAID/Mongolia to support the Mission's Strategic Objective 1, *Accelerate and broaden sustainable, private sector-led economic growth* and its Intermediate Results: Improved enabling environment for private sector growth (IR 1.1) and More competitive industries and sectors (IR 1.2). EPRC will contribute to two broad, interrelated project goals:

1. Accelerate and deepen the policy reform process in Mongolia
2. Promote increased competitiveness in the Mongolian economy.

The relationship between the Mission's strategic framework and the EPRC activity is summarized in the diagram below:



Expected project results include the following:

1. Priority policy issues identified and resolved
2. Improved national dialogue
3. Priority clusters strengthened.

To achieve these results and meet the contract requirements specified by the categories of Contractor's tasks summarized in the adjacent text box, the IP organizes activities in four broad areas:

- A. Economic, trade, and financial policy support
- B. Energy sector reform support
- C. Business and sector/cluster development
- D. Cross-cutting activities: National dialogue and project management

CONTRACT CATEGORIES OF TASKS

- Policy analysis, formulation and implementation support
- Consensus building, public education, and national dialogue
- Cluster development and support
- Internship program
- Synergy with USAID and other donor activities
- Monitoring, assessing and reporting on results

Policy analysis, formulation, and implementation support activities to achieve Project Result 1, *Priority policy issues identified and resolved*, are subsumed under component A of the project. Energy sector reform activities are included under project component B and are also responsive to the achievement of Project Result 1.

Project component C, Business and sector/cluster development, include activities proposed to achieve Project Result 3, *Priority clusters strengthened*.

Project component D responds to the achievement of Project Result 2, *Improved national dialogue*, as well as cross-cutting activities of coordination with other USAID and donors' programs, management of the internship program, and project monitoring and reporting tasks.

Section I of the QPR summarizes significant accomplishments of the quarter. These deal primarily with mobilization and project start-up activities. Accomplishments include:

- Chemonics home office project support personnel traveled to Ulaanbaatar during the last week of September to finalize EPRC logistics (finding office space, identifying and interviewing local staff, registering Chemonics, opening bank accounts, receiving technical documents and equipment from the EPSP Contractor, conducting a local market salary survey for professional positions similar to those of EPRC, developing a proposed matrix of EPRC positions and salary ranges for Mission approval, engaging local legal counsel, etc.)
- All long-term expatriate personnel mobilized to Ulaanbaatar during the week of 13 October, with the exception of the Competitiveness Advisor who, due to prior contractual commitments in an existing project, arrived two weeks later
- Preparation and submission of a draft annual work plan and life-of-project results framework on 19 November
- Validation of the proposed plans with government counterparts and selected private sector stakeholders
- Lease of suitable office space at Tavan Bogd Plaza to house project staff and the USAID Resource Center in the same premises
- Transfer to the new EPRC premises of office equipment in storage received from EPSP and TCI
- Testing, repair, and reconditioning of equipment received, including setting aside of obsolete or unusable equipment
- Procurement of additional office equipment
- Revision of IT equipment specifications and quantities submitted in the proposal to take advantage of received equipment and reduce costs
- Procurement, configuration, and installation of computer workstations for all staff
- Wiring and installation of a Local Area Network (LAN), wide band Internet connectivity and telephone systems for the office
- Negotiation and signature of house leases for expatriate long-term personnel
- Submission of salary matrix grade scale for local positions and approval by USAID Contracting Officer
- With assistance from legal counsel, elaboration of tax-compliant structured remuneration package for local employees to achieve overall project savings
- Interviewing and hiring of local staff
- Elaboration of EPRC Policies and Procedures Manual and training of local administrative staff in Chemonics' project management systems
- Set up inventory database and reporting system of property under EPRC custody and completion of physical inventory of assets
- Submission of revised annual work plan, life-of-project implementation plan, and first year budget on 19 December.

By the end of the quarter local project office support systems and personnel were operational and ready for the tasks ahead. Section I of future QPRs will focus on significant issues and project actions affecting clients and their environment.

Section II of this report presents the work plan framework and initial work plan implementation.

Section III describes project management and administration activities and includes details on personnel hiring and mobilization, problems encountered, actions taken, budget status as of the end of the quarter, and planned activities for the next quarter.

Annex A contains a Summary Project Description and Annex B presents details of meetings held by the Business Development section.

SECTION I: SIGNIFICANT ACCOMPLISHMENTS

A. Introduction

Pursuant to contract provision F2. (c), this first Quarterly Performance Report (QPR) for the *Economic Policy Reform and Competitiveness Project* (EPRC) covers the period from 19 September 2003, the effective start date of the contract, to 31 December 2004.

Section I of the report summarizes significant project accomplishments, Section II presents details of work plan implementation, and Section III deals with project management and implementation. The latter section also contains a budget status report.

B. Significant accomplishments

Contractor's efforts during the quarter under review concentrated in achieving a rapid mobilization of key contract personnel, a smooth transition from predecessor projects, and the myriad of logistical tasks associated with project start-up. A close and supportive association with the Mission facilitated the successful accomplishment of project these tasks as planned. No major problems were encountered.

Significant accomplishments of the quarter deal largely with mobilization task completion and include the following:

- Chemonics home office project support personnel traveled to Ulaanbaatar during the last week of September to finalize EPRC logistics (finding office space, identifying and interviewing local staff, registering Chemonics, opening bank accounts, receiving technical documents and equipment from the EPSP Contractor, conducting a local market salary survey for professional positions similar to those of EPRC, developing a proposed matrix of EPRC positions and salary ranges for Mission approval, engaging local legal counsel, etc.)
- All long-term expatriate personnel mobilized to Ulaanbaatar during the week of 13 October, with the exception of the Competitiveness Advisor who, due to prior contractual commitments in an existing project, arrived two weeks later
- Preparation and submission of a draft annual work plan and life-of-project results framework on 19 November
- Validation of the proposed plans with government counterparts and selected private sector stakeholders
- Lease of suitable office space at Tavan Bogd Plaza to house project staff and the USAID Resource Center in the same premises
- Transfer to the new EPRC premises of office equipment in storage received from EPSP and TCI
- Testing, repair, and reconditioning of equipment received, including setting aside of obsolete or unusable equipment
- Procurement of additional office equipment
- Revision of IT equipment specifications and quantities submitted in the proposal to take advantage of received equipment and reduce costs
- Procurement, configuration, and installation of computer workstations for all staff

- Wiring and installation of a Local Area Network (LAN), wide band Internet connectivity and telephone systems for the office
- Negotiation and signature of house leases for expatriate long-term personnel
- Submission of salary matrix grade scale for local positions and approval by USAID Contracting Officer
- With assistance from legal counsel, elaboration of tax-compliant structured remuneration package for local employees to achieve overall project savings
- Interviewing and hiring of local staff
- Elaboration of EPRC Policies and Procedures Manual and training of local administrative staff in Chemonics' project management systems
- Set up inventory database and reporting system of property under EPRC custody and completion of physical inventory of assets
- Submission of revised annual work plan, life-of-project implementation plan, and first year budget on 19 December.

By the end of the quarter local project office support systems and personnel were operational and ready for the tasks ahead. Section I of future QPRs will focus on significant issues and project actions affecting clients and their environment.

SECTION II: WORK PLAN IMPLEMENTATION

A. Introduction

This section presents the Contractor's proposed structure for the work plan. The detailed work plan is structured in four parts: Economic, Trade, and Financial Policy Support, Energy Sector Reform Support, Business and Cluster Development, and Cross-Cutting Project Activities and Management. The work plan is framed in terms of objectives, projected annual results, and projected life-of-project (LOP) results for each component. Indicative expected results for AWP-2004 and for are stated in terms of objectively verifiable conditions or situations to be found in the environment, sector, or client level.

For each project component, the first column contains the objectives defined in the strategy, the second column contains the expected results at the end of the first annual work plan and the third column details the status at the end of the project.

B. Work plan framework

The work plan framework for Economic, trade, and financial policy support is as follows:

<i>A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT</i>		
Policy Support Objectives	Projected annual results	LOP Results
A1. Development, maintenance, and implementation of sound macroeconomic policies to promote sustainable and equitable economic growth	Fiscal and macroeconomic impact analysis of foreign debt service projections and policy options developed and presented. Fiscal and macroeconomic impact scenarios of corporate tax reduction developed; policy options formulated and presented.	A stable and predictable macroeconomic environment, market-oriented, and promoting sustainable and equitable economic growth.
A2. Development, maintenance, and implementation of trade and investment policies supportive of a competitive participation of Mongolia in the world economy	Generic tariff and non-tariff barriers to Mongolia's trade expansion in Russian and Chinese markets assessed for bilateral and multilateral negotiations. Improved information access available for entrepreneurs on foreign target markets' entry requirements and GSP applicable to Mongolian products. Impact scenarios of the <i>Agreement on Textiles and Clothing (ATC)</i> and <i>Multi Fibre Agreement (MFA)</i> on Mongolian textiles quota-free access to U.S. markets and formulation of policy and industry options.	Generalized reduction of tariff and non-tariff barriers to trade with trading partners. Mongolia utilizes existing trade mechanisms and/or negotiates better access of specific export products having an identified demand in trading partners' markets. Trade and export strategy leads to negotiation of free-trade agreements (FTAs) with countries providing net advantages to Mongolia in terms of trade.
A3. Reduction of transaction costs for businesses	Assessment of Bank of Mongolia requirements, banking spreads, and formulation of policy instruments and plan of action to induce a reduction of commercial loan interest rates, consistent with a stable, market-oriented macroeconomic environment. Field investigation of Russian and Chinese practices applied to the transit of selected Mongolian products and elaboration of GATT-supported procedures for negotiation at bilateral meetings.	Reduction of cost of loan capital to businesses. Reduction of shipping transit times and costs for Mongolian exports.
A4. Deepening and strengthening of the financial sector	Policy framework and strategy developed to deepen the primary and secondary mortgage markets. Assessment and plan of action prepared for stock market operations and development of equity products. Implementation of insurance regulatory framework and strengthened sector supervision.	Expanded primary and secondary mortgage markets provide competitive loan products for residential and commercial financing. Diversity of equity financial products available. Strengthened regulatory and capacity to supervise a wider range of insurance products.
A5. Response to emerging policy reform initiatives	As negotiated and agreed upon and consistent with project policy support focus on laws, regulations, systems, and procedures directly affecting the business environment.	As defined and agreed upon for each initiative.

For the Energy sector reform support component of the project, the proposed work plan framework is shown below:

<i>B. ENERGY SECTOR REFORM SUPPORT</i>		
Policy Support Objectives	Projected annual results	LOP Results
B1. Development and implementation of a transparent, market-oriented regulatory environment to promote competitive and efficient delivery of energy services to consumers	<p>ERA issues regulations and supervises implementation and use of cost-based standards for use by power generating companies .</p> <p>ERA issues and supervises implementation and use of IAS-compliant chart of accounts by power generating companies</p> <p>ERA has strengthened supervisory capacity to oversee power generating companies' implementation of cost-based tariffs and IAS-compliant chart of accounts</p>	The ERA has increased supervisory capacity to regulate a competitive, market-oriented, and transparent regulatory environment in the energy sector.
B2. Development, maintenance, and implementation of commercial orientation and practices in energy generation and distribution companies in the sector	<p>All energy companies are implementing cost-based tariff methodologies and IAS-compliant standard chart of accounts.</p> <p>Some distributions companies are implementing improved customer service practices (complaints management, billing and collection systems).</p>	Energy generation and distribution companies in the sector operate on a commercial basis.
B3. Development, maintenance, and implementation of a legal, regulatory, and financial environment attractive to foreign and domestic private investment and management in the sector	Measures identified and plan of action implemented through "country due diligence" assessment to make Mongolia's energy sector attractive to private foreign investment.	Foreign and domestic private investment transactions negotiated/concluded in the energy sector.
B4. Response to emerging energy sector initiatives	As negotiated and agreed upon and consistent with project energy sector focus on the regulatory environment, commercialization and attraction of private investment and management.	As defined and agreed upon for each initiative.

The corresponding framework for the Business and sector/cluster development component appears as follows:

<i>C. BUSINESS AND SECTOR/CLUSTER DEVELOPMENT</i>		
Objectives	Projected annual results	LOP Results
C1. Improved competitiveness of identified sectors/clusters	Foreign target market niches for Mongolian products or services identified in the key sectors of tourism, cashmere, other textiles, meat and meat products, skins, hide, and leather.	Significantly improved access to and penetration of foreign markets through the introduction of best business practice, co-marketing initiatives, and technology/quality up gradation, <i>across the sector</i> .
C2. Improved competitiveness of sector/cluster based firms	Potential 'anchor firms' identified, recruited as clients, and receiving assistance from the Matching Grant Program (MGP). Dialogue initiated between anchor firms and foreign buyers.	Client firms increase sales and market share in export and export oriented markets, <i>i.e.</i> , become more competitive.
C3. Improved competitiveness of <i>high potential</i> client firms regardless of sector	High potential firms identified, recruited, and receiving assistance from the BD program	Improved core business practices (marketing, production, financial and asset management) leads to increased sales, profitability, employment and investment) - the performance indicators.
C4. Response to emerging opportunities to structure and facilitate public or private/public transactions	As negotiated and agreed upon among the parties and consistent with project BD focus on improving competitiveness of firms, sectors/clusters, and country.	Value of transactions structured or brokered.

Cross-cutting activities such as national dialogue and project management constitute the fourth component of the project, as detailed below:

D. CROSS-CUTTING ACTIVITIES: NATIONAL DIALOGUE AND PROJECT MANAGEMENT

Objectives	Projected annual results	LOP Results
D1. Improved public transparency, corporate governance and national dialogue	<p>Not-for-profit organization, the "Mongolian Business Trust" (MBT) registered, operating as a party to BD transactions, providing value-added services to foreign investors and local businesses through the dissemination of information for businesses and con</p> <p>Continued support for the <i>Open Government</i> Web site operated through the MBT.</p> <p><i>The Mongolian Business Trust Quarterly Review</i> is available through a Web site and distributed electronically to subscribers, in English and Mongolian.</p> <p>Public speaking engagements and audience-targeted informal presentation and discussion opportunities by visiting experts, short-term consultants, and project staff are utilized.</p>	<p>A private-sector led, at least partially self-sustaining not-for-profit organization articulates business interests, develops positions on issues, promotes exports and foreign investment in the country, and provides value-added services to its members.</p> <p>Increased national dialogue on economic policy issues and government transparency.</p> <p>Business community, partners and general public are more informed on economic issues, policy options and the functioning of open market economies.</p> <p>World-class technical expertise shared with the general public, partners, and business community.</p>
D2. Coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations	<p>Regular meetings and discussions lead to identified opportunities to structure collaboration in mutually beneficial ventures.</p>	<p>Increased value-added of project technical assistance delivered through proper project positioning, collaboration, and leveraging of resources.</p>
D3. Monthly EPRC Review	<p>Coverage of project activities of general interest, issued monthly and distributed electronically in English and Mongolian.</p>	<p>Partners are well informed on project activities.</p>
D4. Contract management	<p>Quarterly Progress and Financial reports (QPRs), Annual Work Plans (AWPs), project inventory, training reports, and other contract reports submitted to USAID/Mongolia as required.</p>	<p>Project contractual requirements are met.</p>

C. Work plan implementation

In spite of project mobilization and start-up activities, the project began substantive work in the four areas detailed above. Exhibits II-1 through II-4 present the major initial work in each area according to the current proposed format for the work plan.

C1. Economic, trade, and financial policy support

Key activities of this component during the quarter included:

- Mobilization to post
- Staff interviewing and recruitment for positions in the policy support area
- Holding introductory meetings with USAID, The Asia Foundation, The World Bank, Soros Foundation, IMF, Ministry of Finance, Standing Committee on Economic Policy, Asian Development Bank, Bank of Mongolia, Ivanhoe Mines, Barents Group, Prime Minister's Office, Ministry of Industry and Trade, and FIFTA
- A series of substantive meetings with the MOIT, FIFTA, and Prime Minister's Office for the preparation and development of the initial work plan
- Participation in the development of strategic objectives, life-of-project results, work plan framework, and first year work plan activities leading to the submission of the first draft annual work plan and life-of-project results on 19 November and the revised version of 19 December
- Initial implementation activities related to the work plan, as shown in Exhibit II-1.

Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Sep-Dec-03)

A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT

AWP-2004 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
<p>A1. Development, maintenance, and implementation of sound macroeconomic policies to promote sustainable and equitable economic growth</p>		
<p>A1.1 Comparative assessment and benchmarking of corporate and VAT tax policies and administration, formulation of options and action plan</p>	<p>Mongolia's corporate and VAT tax policies and administration assessed and compared against best practices, policy options and action plan formulated and presented to GOM. VAT burden alleviated for SMEs.</p>	<p>Initial work began on assessment of tax system in Mongolia.</p>
<p>A1.2 Comparative assessment and benchmarking of income taxation, social contributions, pension policies and administration, formulation of options and action plan</p>	<p>Mongolia's income taxation, social contributions, pension policies and administration assessed and compared against best practices, policy options and action plan formulated and presented to GOM.</p>	
<p>A1.3 Comparative assessment and benchmarking of central budget expenditures, formulation of options and action plan</p>	<p>Mongolia's central budget expenditures assessed and compared against best practices, priority setting tools, policy options and action plan formulated and presented to GOM.</p>	
<p>A1.4 Foreign debt service assessment, projections and policy options</p>	<p>Fiscal and macroeconomic impact analysis of foreign debt service projections and policy options developed and presented. Analysis and improvements in the monetary and exchange rate regime, calculation of a real effective exchange rate, formulation of a policy that balances need for low inflation with need for competitive export pricing.</p>	
<p>A1.5 Real exchange rate management</p>		
<p>A2. Development, maintenance, and implementation of trade and investment policies supportive of a competitive participation of Mongolia in the world economy</p>		
<p>A2.1 Assessment of tariff and non-tariff barriers to trade in Russia and China.</p>	<p>Generic tariff and non-tariff barriers to Mongolia's trade expansion in Russian and Chinese markets assessed for bilateral and multilateral negotiations.</p>	
<p>A2.2 Utilization of Generalized System of Preferences (GSP) for Mongolian products</p>	<p>Improved information access available for entrepreneurs on foreign target markets' entry requirements and GSP applicable to Mongolian products.</p>	<p>Data compilation began of GSP granted in target export markets for potential Mongolian products.</p>
<p>A2.3 ATC and MFA impact analysis, scenarios, and policy and industry options</p>	<p>Impact scenarios of the Agreement on Textiles and Clothing (ATC) and Multi Fibre Agreement (MFA) on Mongolian textiles quota-free access to U.S. markets and formulation of policy and industry options.</p>	

Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Sep-Dec-03)

A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT

AWP-2004 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
A2.4 Assessment of advantages and disadvantages of potential FTAs with Russia and China	Formulation of trade policy options re potential FTAs with neighboring countries.	
A2.5 Trade policy and trade negotiations		
A2.5.1 Reduction of tariff and non-tariff barriers for Mongolian products with a BD-identified niche demand in specific target markets	Negotiations leading to reduction of tariff and non-tariff barriers to entry for specific Mongolian products.	
A2.5.2 Trade management capacity	Improved trade management capacity	
A2.5.3 Feasibility analysis of Free Economic Zones (FEZ) in Mongolia	Feasibility analysis of FEZ prepared, options developed and presented to MOIT	Request for assistance received for the tendering of the Zaymin-Ut FEZ facility. EPRC advised feasibility analysis, developed and submitted TORs for such. Feasibility analysis will be performed during the next quarter.
A2.5.4 Assistance on FTAs (U.S. and other) and RTAs		Assistance with a Ministerial speech on the advantages for the U.S. of an FTA with Mongolia. Assistance provided to NAMBC working group on potential FTA with the U.S.
A3. Reduction of transaction costs for businesses		
A3.1 Review of nominal and real interest rates, Bank of Mongolia policies, banking spreads, and formulation of policy options	Assessment of Bank of Mongolia requirements, banking spreads, and formulation of policy instruments and plan of action to reduce commercial interest rates to the lowest level consistent with the needs of a strong financial sector development and a stable and predictable macroeconomic environment.	
A3.2 Transit of goods through Russia and China	Field investigation of Russian and Chinese practices applied to the transit of selected Mongolian products and elaboration of GATT-supported procedures for negotiation at bilateral meetings.	
A4. Deepening and strengthening of the financial sector		
A4.1 Insurance sector regulatory environment	Implementation of insurance regulatory framework and strengthened sector supervision.	
A5. Response to emerging policy initiatives	As negotiated and agreed upon and consistent with project policy support focus on laws, regulations, systems, and procedures directly affecting the business environment.	

Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Sep-Dec-03)

A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT

AWP-2004 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
<p>A5.1 Countries' best practices, development of economic & financial models to inform the negotiation of stability agreements in the mining sector</p>	<p>GOM informed about best practices and lessons learned on terms and administration of stability agreements and equipped with economic and financial models to assess impact of stabilization agreements.</p>	<p>Request received to assist in the evaluation of stability agreements in the mining sector. Project submitted initial concept assessment, a fiscal cost-benefit analysis model, documents comparing such agreements, and recommendations for action.</p>
<p>A5.2 Review and updating of Jan-03 draft <i>Economic Development Strategy for Mongolia through 2015</i></p>	<p>Medium term economic development strategy prepared (2005-2015), discussed with and supported by agreements with political parties, private sector, and civil society.</p>	<p>Request received to review the draft Economic Development Strategy for Mongolia. Initial views provided; written comments and discussions on how to proceed to be held next quarter.</p>

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By the end of the quarter, Economic, trade, and financial policy support activities were proceeding as planned and largely driven by response to emerging policy issues that needed to be addressed. Three such issues were of special significance:

- Request for assistance with the evaluation of stability agreements in the mining sector
- Request for assistance with the economic and financial feasibility analysis of the Zaymin-Ut FEZ
- Request for assistance with the *Draft Economic Development Strategy for Mongolia*.

Exhibit II-1 provides details on these.

C2. Energy sector reform support

Key activities in the energy sector during the quarter included:

- Mobilization to post
- Staff interviewing and recruitment, resulting in the hiring of Mr Nordovyn Amgalan as the Energy Specialist
- Holding introductory meetings with USAID, The Asia Foundation, The World Bank, Soros Foundation, ATI Consortium, Energy Regulatory Agency, Ministry of Finance, Standing Committee on Economic Policy, Asian Development Bank, JICA, Ivanhoe Mines, Ministry of Infrastructure, Barents Group, Ernst & Young, GTZ, State Property Committee, Prime Minister's Office, Integrated Financial Services (Mongolian financial services company), and Energy International Company (Mongolian energy consulting company)
- A series of substantive meetings with the ERA and the MOI for the preparation and development of the initial work plan
- Participation in the development of strategic objectives, life-of-project results, work plan framework, and first year work plan activities leading to the submission of the first draft annual work plan and life-of-project results on 19 November and the revised version of 19 December
- Initial implementation activities related to the work plan, as shown in Exhibit II-2.

By the end of the quarter, Energy Sector Reform activities were proceeding as planned and largely driven by response to emerging policy issues that needed to be addressed. Exhibit II-2 provides details on these.

C3. Business and sector/cluster development

Key activities of the Business and sector/cluster development during the quarter included:

- Mobilization to post
- Staff interviewing and recruitment, resulting in the hiring of Ms Jigjidmaa Dugeree (agribusiness cluster), Ms Indraa Bold, (tourism), and identification of a third member of the BDS team who will join the project in early January
- Holding a series of introductory meetings with stakeholders in the sector, as shown in Annex B, to become familiar with the actors and issues facing associations and firms of the sectors/clusters to inform in the preparation of the work plan
- Participation in the development of strategic objectives, life-of-project results, work plan framework, and first year work plan activities leading to the submission of the first draft

Exhibit II-2: Energy work plan implementation (Sep-Dec-03)

B. ENERGY SECTOR REFORM SUPPORT

AWP-2004 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
B1. Development and implementation of regulatory environment		
B1.1 Regulations and implementation of cost-based standards for sector companies	ERA staff issues a manual to sector companies to calculate their cost for rate-making purposes. Tariff methodology is understood by stakeholders.	
B1.1.1 Cost-based tariff calculation by sector companies		
B1.1.2 Assist ERA with implementation of an IAS-based Regulatory Accounting System	Sector companies use uniform accounting rules for regulatory cost reporting.	
B1.2 Strengthening of ERA supervisory capacity		
B1.2.1 Development and support for ERA system for supervision of and implementation of a reporting system by sector companies.	Strategic plan for regulatory implementation in place and being implemented.	
B1.2.2 Development and support for ERA's public information strategy	A set of working procedures for customer service in place.	
B1.2.3 Develop Public Hearing Process to hear sector company and Consumer complaints	Procedures for public hearings in place and being implemented.	
B1.2.4 Assist ERA with review of temporary sector company operating licenses and develop long term licenses	A set of operating licenses for sector companies	
B2. Development and Implementation of commercial orientation and practices in private sector companies		
B2.1 Billing and collection systems for distribution companies	Improved billing and collection methods.	
B3. Attractive environment for private investment in the sector	Assessment memorandum on laws, rules and regulations on country due diligence check list commonly used by foreign investors and recommendations for implementation.	"Privatization: The Investor's Point of View" Workshop delivered at the ERA on 18 November.

Exhibit II-2: Energy work plan implementation (Sep-Dec-03)

B. ENERGY SECTOR REFORM SUPPORT

AWP-2004 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
B4. Response to emerging policy initiatives	As negotiated and agreed upon and consistent with EPRC's sector focus on the regulatory environment, commercialization and attraction of private investment and management	Review and comment on Energy Efficiency draft law; recommendations for policy change and changes to the draft. Delivered to the MOI on 21 November.
B4.1 Review of Energy Efficiency draft law		Comments on the Draft Power Sector Privatization Strategy" report prepared by ATI Consortium delivered on 26 December.
B4.2 Privatization strategy review		Consultation provided on 31 December.
B4.3 Power supply availability for Gobi Desert mining projects development		

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annual work plan and life-of-project results on 19 November and the revised version of 19 December

- Initial implementation activities related to the work plan, as shown in Exhibit II-3.

By the end of the quarter, BDS activities were proceeding as planned. The information and data for the production of the sector assessments was completed, the establishment of a Mongolian Tourist Information Centre as a public private partnership was in progress, and BDS was considering support for a request to establish an independent leather manufacturing association to face what was perceived as unfair competition by Chinese-controlled companies.

Exhibit II-3 presents details of the initial implementation of the BDS work plan.

C4. Cross-cutting activities: national dialogue and project management

Implementation of activities in this area was the most intense during the quarter due to tasks associated with mobilization, project start-up, preparation of work plans, budgets, and their successive iterations.

Exhibit II-4 provides details of initial work plan implementation in this area.

Exhibit II-3: Business development services work plan implementation (Sep-Dec-03)

C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT

AWP-2004 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
C1. Improved competitiveness of identified sectors/clusters	<p>Concise sector/cluster reports summarizing current status, constraints, supply and distribution chains, potential anchor firms, and export potential to serve as basis of sector/cluster action plans.</p> <p>Sector/cluster action plans developed and agreed upon with representative associations and potential anchor firms.</p> <p>Objectives, eligibility criteria, and operating procedures of Matching Grants Program (MGP) for sector/cluster associations defined and agreed upon; MGP begins operations.</p> <p>User-friendly CD and Web site accessible database on potential target export market niches for Mongolian products and competitors' market share.</p> <p>A wide representation of sectors/clusters, firms and GOM agencies are made aware of potential target export market niches for Mongolian products.</p> <p>Improved range and quality of services delivered to members.</p>	<p>By the end of the quarter, the information and data for the production of the sector assessments was completed and the opinions and views of the players noted. This information will form the basis of sector strategies to be completed next quarter.</p>
C2. Improved competitiveness of sector/cluster based firms.	<p>Sector/cluster firms receive specialized assistance, on a co-payment basis, to improve their core business systems (marketing, production, working & investment capital, management & administrative controls, as required) to increase their sales.</p> <p>Sector/cluster firms made aware of BDF procedures and eligibility criteria; client firms recruited</p> <p>Directory of local business development services consultants and providers made available to firms</p>	
C2.1 Design of co-payment scheme for business development services to client firms (Business Development Fund)		
C2.2 Marketing of the Business Development Fund (BDF) and recruitment of client firms		
C2.3 Assessment of local Business Development Service (BDS) providers		

Exhibit II-3: Business development services work plan implementation (Sep-Dec-03)

C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT

AWP-2004 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
<p>C2.4 Provision of business development services on a client co-payment basis to sector/cluster firms through the Business Development Fund (BDF)</p> <p>C2.5 Contracting procedures workshops for business development services providers</p>	<p>Firms implement improvements in core business practices leading to increased competitiveness.</p> <p>BDS providers develop additional expertise and improve range and quality of services to clients</p>	
<p>C3 Improved competitiveness of high potential firms</p> <p>C3.1 Marketing of the Business Development Fund (BDF) and recruitment of client firms</p> <p>C2.4 Provision of business development services on a client co-payment basis to high potential firms through the Business Development Fund (BDF)</p>	<p>High potential firms improve core business systems in response to specific transactions: sales, capital restructurings, new products, channels of distribution, etc.</p> <p>High potential firms made aware of BDF procedures and eligibility criteria; client firms recruited</p>	
<p>C4 Formulation of action plans to address identified common constraints to business performance: policies, procedures, regulations, instruments, facilities, etc.</p>	<p>Constraints in the business environment identified through transaction-based approach and action plans formulated and agreed upon on an as-needed basis with relevant parties to address them.</p>	
<p>C5 Response to emerging opportunities to structure and facilitate public or private/public transactions.</p> <p>C5.1 Tourist Information Center</p> <p>C5.2 Wholly-owned Mongolian companies' leather association</p>	<p>As negotiated and agreed upon and consistent with BDS focus on improving competitiveness of firms and improving the business environment.</p>	<p>Initial discussions held with MTB, MTA, and local authorities to collaborate in the formation of a seoarate entity to manage a Tourist Information Center; draft MOU among the parties to be drafted and discussed next quarter.</p> <p>Consideration being given to the formation of a different entity to confront what is seen as unfair and unsafe competition by Chinese-controlled companies.</p>

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Exhibit II-4: Cross-cutting issues: National dialogue and project management work plan implementation

D. CROSS-CUTTING ISSUES; NATIONAL DIALOGUE AND PROJECT MANAGEMENT

AWP-2002 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
D1. Improved public transparency, corporate governance and national dialogue	<p>Not-for-profit organization, the "Mongolian Business Trust" (MBT) registered, operating as a party to BD transactions, providing value-added services to foreign investors and local businesses through the dissemination of information for businesses and contributions to a national dialogue.</p> <p>Continued support for the <i>Open Government</i> Web site operated through the MBT.</p> <p><i>The Mongolian Business Trust Quarterly Review</i> is available through a Web site and distributed electronically to subscribers, in English and Mongolian.</p> <p>Public speaking engagements and audience-targeted informal presentation and discussion opportunities by visiting experts, short-term consultants, and project staff are utilized.</p>	<p>Continued support for the existing <i>Open Government</i> Web site; discussions held for planned move to EPRC offices during the next quarter.</p>
D1.1 Mongolia Business Trust		
D1.2 <i>Open Government</i> Web site		
D1.3 <i>The Mongolian Business Trust Quarterly</i>		
D1.4 <i>Speakers Program</i>		
D2. Coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations	<p>Regular meetings and discussions lead to identified opportunities to structure collaboration in mutually beneficial ventures.</p>	<p>Series of initial introductory meetings held.</p>
D3. Monthly EPRC Review	<p>Coverage of project activities of general interest, issued monthly and distributed electronically in English and Mongolian.</p>	
D4. Internship program	<p>Participants acquire first-hand experience in best practices by working side by side with experts on specific projects focused on improving the competitiveness of the Mongolian economy.</p>	

Exhibit II-4: Cross-cutting issues: National dialogue and project management work plan implementation

D. CROSS-CUTTING ISSUES; NATIONAL DIALOGUE AND PROJECT MANAGEMENT

AWP-2002 ACTIVITIES	PROJECTED ANNUAL RESULTS	BENCHMARKS & CURRENT STATUS
<p>D5. Contract management</p> <p>D.5.1 Quarterly Progress Reports</p> <p>D.5.2 Annual Work Plans</p> <p>D.5.3 Training database</p> <p>D.5.4 Other reports on demand</p>	<p>Project contractual requirements are met.</p>	<p>Policy agenda, first draft work plan, and LOP results framework submitted on 19 November per contractual requirement F.2 (a); second draft work plan, LOP plan, and first year budget submitted on 19 December.</p> <p>Initial assistant provided to the Mission in the development of PMP indicators for SO1 project-relevant results.</p>

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SECTION III: PROJECT MANAGEMENT AND ADMINISTRATION

A. Introduction

This section summarizes significant project management and administration activities, personnel status, problems encountered and actions taken to solve them, a budget status report, and main activities scheduled for completion during the next quarter.

B. Significant project management and administration activities

Project management and administration activities were intense during the quarter as expected with a project start-up. The mobilization and start-up activities were completed according to plan, as detailed in Section I. No unusual or major problems were encountered and this stage of the project was completed successfully.

C. Personnel

Mobilization of key contract personnel took place as scheduled and proceeded smoothly. All key personnel had moved into permanent housing by the end of the quarter. Hiring for local professional and support positions proceeded satisfactorily and competent local staff have been hired at competitive rates. Deployment of short-term assignments also went on smoothly and as planned.

C1. Hiring of long-term local personnel

By the end of the quarter the project had hired five local long-term professionals and filled a sixth position with an effective start date of 5 January 2004. Five local support personnel were also on board. The table below summarizes the status hiring of long-term local personnel as of the end of the reporting period.

Employee name	Employee position	Effective start date
<i>Professional Staff</i>		
Altansukh Tumenjargal	IT specialist	November 10, 2003
Amgalan Nordov	Energy specialist	November 10, 2003
Nyamdulam Nyamjav	Accountant	November 26, 2003
Jigjidmaa Dugeree	Business development advisor	December 8, 2003
Byambasuren Chuluunbaatar	Economic analyst	December 15, 2003
Indraa Bold	Business development advisor	January 5, 2004
<i>Support Staff</i>		
Batmunkh Batsuren	Driver/Messenger	ST since October 1, 2003
Uurtsaikh Sanghi	Operations manager	November 10, 2003
Khaliun Yura	Receptionist	November 26, 2003
Urinzol Erdenebat	Executive assistant	December 8, 2003
Oyuntsetseg Minjin	IT assistant/Information officer	December 12, 2003

Project management efforts during the quarter focused on recruiting competent local personnel at competitive rates, in accordance with the approved salary matrix scale. These efforts will continue through the next quarter, when the project expects to complete recruitment of local long-term hires.

C2. Arrival and departures of personnel

Implementation of mobilization plan. Consistent with the mobilization plan submitted in the Contractor's proposal, an advance Chemonics' home office team departed for Ulaanbaatar within one week of the effective start-up date of the EPRC contract. The Senior Project Administrator and Project Assistant performed, *inter alia*, the following tasks:

- Receipt of equipment under custody from predecessor projects, PSP and TCI, that were closing
- Identification, interviews, and pre-selection of candidates for local long term professional and support staff positions
- Identification of suitable office premises for the project
- Survey of local market salaries for positions similar to those needed by the project
- Proposal of a salary matrix grade scale for local positions to be filed by the project and submission to the Contracts Office for approval of the salary matrix scale
- Registration of Chemonics, opening of bank accounts, and other logistical arrangements.

The Contractor also mobilized all key expatriate personnel within thirty days of the effective date of contract inception, with the exception of the Competitiveness Specialist, Mr Bruce Harris, who arrived at post on 28 October due to previous contractual commitments.

Short-term assignments during the quarter. There was one short-term assignment during the quarter. With Mission consent, Mr Josh Pashman, Chemonics' EPRC's Project Assistant, arrived in early December to establish Chemonics/USAID-compliant project management and administration procedures, assist with inventory systems and reporting of property under custody by the Contractor, and customize a Project Policies and Procedures Manual for local use.

The table below summarizes personnel arrival and departures by date and purpose.

Name	Position	Date of arrival	Date of departure	Purpose
Christie Sunwoo	Project Assistant	26-Sep-03	21-Oct-03	Project start-up
Cheryl Doty	Senior Project Administrator	26-Sep-03	21-Oct-03	Project start-up
Ron Ivey	Project Supervisor	13-Oct-03	21-Oct-03	Project start-up
Christopher Broxholme	Deputy Chief of Party	11-Oct-03		Arrival to post
Fernando Bertoli	Chief of Party	13-Oct-03		Arrival to post
Horst Meinecke	Energy Advisor	13-Oct-03		Arrival to post
Janusz Szyrmer	Economic Policy Advisor	13-Oct-03		Arrival to post
Bruce Harris	Competitiveness Advisor	28-Oct-03		Arrival to post
Josh Pashman		03-Dec-03	22-Dec-03	Establishment of administrative systems

D. Problems encountered and remedial actions

There were no significant problems materially affecting contract performance during the quarter. Problems encountered were expected and solved. For example, negotiations for the lease of office premises failed to materialize but more suitable space was found and negotiated at very competitive rates. Similarly, recruitment of suitable candidates for a macroeconomist suffered a setback when certain candidates who had given commitments chose other options of employment. Project management continues to exercise its best efforts in identifying and recruiting the best suitable candidate for the available positions, an effort that will be continued during the next quarter.

E. Budget status report

The following amounts were invoiced during the quarter:

Line Items (CLINS)	Contract Budget (\$)	October 2003 (\$)	November 2003 (\$)	December 2003 (\$)	Total Expended Through December 2003	Remaining Budget (\$)
CLIN 001: Policy Analysis, Formulation and Implementation	\$6,853,873	\$1.00	\$0	\$0	\$1.00	\$6,853,872
CLIN 002: Consensus Building, Public Education and National Dialogue	\$1,640,965	\$0	\$0	\$0	\$0	\$1,640,965
CLIN 003: Cluster Development and Support	\$6,297,242	\$0	\$0	\$0	\$0	\$6,297,242
CLIN 004: Internship Program	\$941,978	\$0	\$0	\$0	\$0	\$941,978
CLIN 005: Project Management	\$919,299	\$78,012	\$118,143	\$96,955	\$293,110	\$706,890
Total	\$16,653,357	\$78,014	\$118,143	\$96,955	\$293,111	\$706,890

The figures reflected in the table above represent the total numbers from all invoices submitted from Chemonics' home office. The numbers are rounded to the nearest dollar.

F. Project and contract management actions expected for the next quarter

Project and contract management actions expected to be completed during the next quarter include the following:

1. Hiring of suitable local personnel for remaining open positions

2. Installation of a computerized project management accounting system and training of project accountant on Chemonics' USAID-compliant accounting policies and procedures
3. Completion of procurement as per approved schedule, including project vehicles, a server, router, and firewall for the LAN, and remaining office furniture and equipment
4. Realignment of CLIN budget line items to include Energy as CLIN 004 in lieu of Internship Program as per agreement with the Mission; this will require Contracting Officer approval
5. Final agreement of the first year budget projections, work plan, and life-of-project plan.

ANNEXES

ANNEX A: SUMMARY PROJECT DESCRIPTION

Mongolia Economic Policy Reform and Competitiveness

Prime Contractor

Chemonics International Inc.

Client

USAID/Mongolia

Project Name

Economic Policy Reform and Competitiveness (EPRC)

Value of Services

\$16, 653, 536

Duration

2003-2008

Associated Firms

The Services Group Inc.

PA Consulting

Dexis Consulting Group

The Asia Foundation

Crimson Capital

Making Cents

Purpose

Accelerate and broaden sustainable, private-sector-led economic growth through an improved enabling environment for private sector growth and more competitive industries and sectors.

Situation and Solution

Since the breakup of the Soviet Union in 1989, Mongolia has implemented broad economic and political reforms. A reflection of this successful transformation from a state-controlled to a market-oriented economy is underscored by the fact that the private sector now accounts for over 70% of Mongolia's GDP. Despite many challenges, Mongolia's economic future looks bright with its well educated and healthy labor force and abundance of mineral resources. With continued reforms, Russia's strengthening economy, and China's recent accession to the World Trade Organization, Mongolia is poised to truly re-emerge onto the world economic stage.

To continue reforms of the economy, USAID selected Chemonics to implement the Mongolian *Economic Policy Reform and Competitiveness* (EPRC) activity, which will contribute to two broad, interrelated objectives:

- Accelerate and deepen the policy reform process in Mongolia
- Promote increased competitiveness in the Mongolian economy

The activity builds on two activities that recently ended and have shaped both policy and private sector development in Mongolia: the Economic Policy Support Project (EPSP) and The Competitiveness Initiative (TCI). Within the USAID/Mongolia results framework, both activities contributed directly to the achievement of Strategic Objective One (SO1): Accelerate and broaden environmentally sound private sector growth.

Using clearly defined components focused on achieving measurable results, the EPRC project applies a synergistic approach to the following categories of tasks:

- **Policy analysis, formulation and implementation support.**
This task category includes: (a) policy assessment and analysis; (b) formulation of policy options for improving the competitiveness of the Mongolian economy; (c) assistance in consensus building; and (d) technical and managerial implementation support.
- **Consensus building, public education and national dialogue.**
EPRC supports an improved environment for government transparency and corporate governance by working with national decision-makers, the business community, local government and community leaders, academic institutions, and representatives of civil society using a consensus building strategy linked to policy reform and private sector led economic growth.
- **Cluster development and support.** EPRC works with individual firms and inter-related groups (clusters) in key industrial sectors to develop competitive, export-driven businesses. Priority sectors include cashmere, tourism, hides, skins, leather, meat, and textiles.
- **Energy sector support:** EPRC supports Mongolia's efforts to develop and implement a transparent, market-oriented regulatory environment to promote a competitive and efficient delivery of energy services to consumers; commercial practices in energy generation and distribution; and an environment attractive to foreign and domestic private investment.
- **Internship Program.** To improve the quality of economic, trade, and business decision-making, EPRC runs a small internship program where participants acquire first-hand experience in best practices by working side by side with experts on specific projects focused on improving the competitiveness of the Mongolian economy.



ANNEX B: MEETINGS HELD BY THE BUSINESS DEVELOPMENT TEAM

ECONOMIC POLICY REFORM AND COMPETITIVENESS PROJECT

#	ORGANIZATION	CONTACT(S)
A	Government Departments	
1	Ministry of Industry and Trade	Mr. Surenkhор, Mr Galsandorj
2	FIFTA (Foreign Investment and Foreign Trade Agency)	Mr Otganbat
3	Ministry of Infrastructure	Mr Jigjid
4	Mongolian Tourist Board	Mr Enkhbayar, Ms Burmaa
5	State Inspection Agency	Mr Boldbatar
B	Donors and complementary programs/projects	
1	Asian Development Bank	Darius Teter
2	ADB Regional Development Program	Derren Davies
3	World Bank	
4	The Gobi Initiative	Steve Zimmerman
5	The Ger Initiative	Margaret Herro
6	The Asia Foundation	Layton Croft
7	The Competitive Initiative	Michelle Morgan
8	Rural Business News	Stevan Buxt
9	SME Promotion Project	Horst Hamman
10	Enterprise Re-structuring Project	Jonathon Simon
11	Economic and Social Institute (World Bank)	Remco Oostendorf
C	Business Associations	
1	Mongolian Meat Association	Dr S. Deleg
2	Hides, Skins and Furs Producers Association	Mr Tuvshinbat
3	Mongolian Tourist Association	Mr Enkhbayar, Ms Batarsan
4	Mongolian Wool and Cashmere Association	Mr Altantsetseg
5	Cashmere Fiber Mark Society	Mr Batmayar
6	Mongolian Federation of Industries	Dashzeveg Namjaagin
D	Firms	
1	Gobi	Ms Otgontsetsig
2	Eermel	Mr Munkhjarjal
3	Sun Shiro	Borkhuu Rentsendoo
4	Buyan	Mr Jargalsaikhan
5	Mongol Amicale	Roni Lamb
6	Mon Ital	
7	Safico	Freddy Attias
8	Nomin Group	Mr Bayarsaikhan
9	Bridge Group	Mr Sedvanchig
10	Nomadic Tours	
11	Western Source	Mr Sedvanchig
12	Nomin Tours	Ogtorgui
13	MIAT	Sean Braidon
14	Tsolomon Travel	D. Batdelger
15	AD Chem Co	Jorg Adams
16	Xaas Bank	Chuluun Ganhuyag, Jim Anderson
17	Xaan Bank	Peter
18	Capital Bank	Mr Jargalsaikhan
19		